

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

RETAIL GROUND AND PARCEL SELECT GROUND  
SERVICE STANDARD CHANGES, 2022

Docket No. N2022-1

**REPLY BRIEF OF THE UNITED STATES POSTAL SERVICE**

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### **ATTESTATION OF WORD COUNT**

The Postal Service attests that this brief contains 3,002 words, excluding the cover and Table of Contents.

## **I. STATEMENT OF THE CASE**

On March 21, 2022, the United States Postal Service (Postal Service) requested that the Postal Regulatory Commission (Commission) issue an advisory opinion concerning proposed enhancements to service standards for the end-to-end Retail Ground (RG) and Parcel Select Ground (PSG) competitive products within the contiguous United States from the current 2- to 8-day standard to a 2- to 5-day standard to align with the service standards for First-Class Package Service (FCPS).

After responding to a number of information requests from the Presiding Officer, on May 11, 2022, the Postal Service submitted its Initial Brief in support of the planned RG-PSG service standard changes. The same day, the Public Representative (PR), the only other participant to these proceedings, submitted his Statement of Position (PR SOP), which endorses and supports the planned service standard changes, albeit with some observations on the extent of the Postal Service's underlying investigation and decision-making process. No other briefs nor statements of position have been submitted.

This Reply Brief responds to the central points raised in the PR's SOP.

## **II. STATEMENT OF POSITION**

The Postal Service's Initial Brief summarizes the evidence of record, the scope of the Commission's responsibilities, and the legal standards applicable to the exercise of those responsibilities and explains why the planned service standard changes accord with and conform to the policies of title 39 of the United States Code. In particular, the Postal Service's Initial Brief demonstrates that, by consolidating RG and PSG volume with FCPS volume, the Postal Service can:

- offer faster service for packages that exceed the weight and size limitations of FCPS;
- address the large and growing market demand for a low-price, medium-speed shipping service for packages in excess of one pound;
- increase overall RG-PSG volumes and revenue while reducing costs over time;
- further optimize the Postal Service's package processing and surface transportation networks;
- improve volume and capacity in surface lanes; and
- reduce the overall package processing burden while at the same time improving speed and reliability by eliminating certain touch points and combining multiple sorts along the delivery network.

The PR generally supports the planned RG-PSG service standard changes, describing them as “a worthwhile improvement.” (See, e.g., PR SOP at 14). He nonetheless takes issue with the extent of the underlying investigation and decision-making:

As a general matter, the Public Representative supports the Postal Service's plan and appreciates its efforts to provide faster service for RG and PSG products and maximize the efficiency of its transportation networks. However, the Public Representative does note some areas in which the impacts of the proposed service standard changes may not yet have been fully examined and encourages the Postal Service to consider them in detail.

(PR SOP at 1; see *also id.* at 15.) In particular, the PR suggests that the proposal could have benefited from more extensive surveys, modelling, and pilot testing. (See *id.* at 14, 16-20.)

The Postal Service appreciates the PR's support as well as his suggestions, and it agrees that, in the right circumstances, what the PR suggests could be beneficial. It must be understood, however, that such measures are not without cost, not only in terms of dollars, and not just in time, effort, and resources directly attributable to the change being considered, but also to the extent that the additional work syphons money, time, effort, and resources away from other projects, and imposes opportunity costs caused by delayed implementation of the proposed change. In that regard, the Postal Service respectfully submits that its underlying investigation and decision-making process was sufficient, robust and proportionate to the risks and rewards embodied by the planned RG-PSG service standard changes.

### **III. DISCUSSION**

Notwithstanding his overall support for the planned RG-PSG service standard changes, the PR raises a few general concerns about the changes. Each of those concerns is addressed below.

#### **A. The Planned Changes Will Not Exacerbate Transportation Issues nor Degrade On-Time Service Performance**

Referencing the Commission's advisory opinion in Docket No. N2021-2, the PR alludes to "numerous issues" affecting the Postal Service's transportation network, among them various "routine" causes of delay—*e.g.*, disruptive weather events, loading problems, and underperforming contract trucking suppliers—as well as "pandemic-related issues such as increased package volume and a shortage in truck drivers." (PR SOP at 15). He then remarks that "the proposed service standard changes do not

automatically solve any of these issues with surface transportation, and in fact may well exacerbate them.” (*Id.*)

It is, however, unclear what relevance this bears to the changes now being considered, since RG and PSG (as their names imply) already travel largely on the ground. Indeed, the planned changes will likely result, at least initially, in some increased reliance on air transportation. (USPS-T-2 at 17.) The planned changes, then, do not require a more extensive use of surface transportation than before, as did those discussed in Docket No. N2021-2; instead, they aim to achieve a more efficient deployment of underutilized capacity within the already-existing FCPS transportation network. (USPS-T-1 at 12; USPS-T-2 at 13; USPS Br. at 3.) Furthermore, while the Postal Service has never styled the planned changes as an “automatic” panacea to all outstanding causes of delay, the PR does not explain how they might exacerbate the problems he identifies. Indeed, the elimination of interim “touches” should, if anything, decrease the occasions for human and/or mechanical failure—a matter upon which the Postal Service and the PR seem to agree. (See PR SOP at 15, n.12 (“From missed scans to broken bundles, the Public Representative believes that fewer instances of handling the mail may lead to fewer delays.”); USPS-T-1 at 12; USPS Br. at 19). It is therefore difficult to discern what in the planned changes gives cause to suppose that on-time service performance will worsen. Perhaps this is why, despite his stated qualms, the PR “believes it is fair to suggest that on-time service performance could improve if this plan is successfully implemented.” (PR SOP at 15.)

**B. Pilot Testing Would Not Have Added Value to the Modeling and Research Already Conducted**

In the PR's view, "the current docket presents similar issues to those identified by the Public Representatives in Docket Nos. N2021-1 and N2021-2 regarding the use of modeling and market research rather than testing." (*Id.* at 16.) Further noting that the Commission, in those cases, "tended to agree . . . that the modeling and research conducted by the Postal Service in preparation for their proposed changes would have limited predictive value," the PR questions a perceived lack of "operational and pilot testing"—though he acknowledges the "difficulties and costs" associated with such tests. (*Id.* at 14, 17.)

The observation misses two important points. First, the Postal Service has in fact assessed its capacity to implement the planned changes. As noted in response to POIR No. 2, Operations specialists "analyzed operating plans to determine if the origin and destination plants could absorb the very small volume that . . . would be merged into FCPS operations." They then determined, "in concert with the Logistics group, that P&DCs could accommodate the additional mail volume, and that a sufficient amount of cube space was available on existing transportation." (Witness Bray's Response to POIR No. 2, Question 7.k.) This analysis may not have included a lengthy pilot program; but given the small quantity of volume involved, it strongly supports the changes' feasibility. Second, it is not clear that the cases in Docket Nos. N2021-1 and N2021-2 present meaningful analogies to the present one. The service standard changes to FCM and FCPS impacted vastly larger volumes than those at issue here; they also entailed the establishment of new transportation networks. These changes, on the other hand, merely exploit an opportunity occasioned by the FCPS network now



in place. (See *supra* at 4; see also USPS Br. at 2). The likelihood that the analyses and modelling informing the planned changes could lead to unexpected results is, accordingly, low.

Finally, the Postal Service's transportation network relies on multiple products from multiple origins; given this degree of complexity and interconnectivity, even minor operational changes may produce network effects that become apparent only after those changes are implemented in full. The attempt to isolate the planned changes in a pilot test from the broader context of their nationwide distribution would raise significant challenges while providing limited insight, and it is therefore far from obvious that such testing would yield benefits sufficient to justify its burden and costs. Indeed, such a commitment of time and resources would arguably impose costs of a type not considered by the PR: namely, the opportunity costs incurred by failing to provide superior service where and when it is possible to do so. There is demonstrable market demand for a low-priced, medium-speed shipping solution for large packages. (See USPS Initial Brief at 12; see also USPS-T-1 at 5-6, 8-10.) The Postal Service now stands poised to address that demand, and the PR largely endorses the course of action it has proposed. If the proposal had been delayed by tests of dubious utility, the Postal Service could lose the opportunity to better and more quickly serve its customers.

### **C. The Postal Service's Customer Survey is Adequate and Appropriate**

While the PR states that he "has no reason to doubt ... that the ground shipping market is increasing and that ground shippers are price conscious while also favoring increased delivery speed" (PR SOP at 17), he nevertheless takes "issue with the

manner in which the Postal Service came to these conclusions.” (*Id.*) If, however, the conclusions are indeed beyond doubt—and the Postal Service agrees that they are—the manner in which they were reached would seem relatively unimportant. The conclusions are correct and undisputed regardless of how they were obtained—which in this instance was through a combination of survey data and experience (*see id.*; *see also* USPS-T-1 at 6-7).

That said, the PR’s issues about the surveys do not implicate the conclusions. The PR first argues that because the Commercial Shipper Survey (USPS-LR-N2022-1/NP2) was “directed to all shippers, not just those using ground methods,” the results “may not be representative of the actual group it purports to measure.” (PR SOP at 18). The PR, however, offers no reasoning to suggest why a survey of all shippers would not also represent the views of the subsection who use only ground shipping products. The PR’s assertion is purely—indeed expressly (“may not be”)—speculative. What is worse, the speculative assertion is not premised upon an accurate description of the target survey population, which was not “all shippers” as the PR asserts. The actual target survey population is described at pages 1 and 3 of the Preface to the Survey Library Reference. (USPS-LR-N2022-1/NP2, Preface at 1, 3.)

The PR also suggests that without a survey specifically of ground shippers, “the Postal Service may find that they [ground shippers] value other factors more highly than price.” (PR SOP at 18.) But while the Survey and Postal Service experience support the conclusion that “ground shipping customers tend to be more price conscious” (USPS-T-1 at 7), in the limited context at issue here, it is not price, but rather speed, that is the driving issue behind the planned RG-PSG service standard changes. Thus,

the Postal Service analyzed how commercial shippers “prioritize shipping services and features and assess[ed] their price sensitivity to changes in time-in-transit” and found that there is an “existing demand for increased package delivery speed.” (*Id.*; *see also* USPS-LR-N2022-1/NP2, ‘BCG Survey Output Request.xlsx’, ‘Description’ Tab, Row 14, and ‘Purchase Criteria’ Tab, Col. D.)

The PR takes further issue with the Commercial Shipper Survey to the extent that its target population did not include retail shippers. (See PR SOP at 18.) In particular, the PR is concerned that, *if* reliability or on-time performance suffer following implementation of the service standard changes, retail customers might become dissatisfied. (*Id.*) The PR, however, does not explain why retail customers might react to unreliable service differently than commercial shippers, nor does he offer any reason to suggest why reliability or on-time performance might suffer—to the contrary, the PR actually acknowledges that he has no ability to predict how the service standard changes will affect on-time service performance and goes so far as to accept that on-time service performance could improve:

That said, though the Public Representative cannot accurately predict whether the on-time service performance for RG, PSG, or FCPS will improve if this plan is implemented, considering that the intent of this plan is to reduce touches for the mail in question and many of the current problems regarding service performance can be attributed to these touches, the Public Representative believes it is fair to suggest that on-time service performance could improve if this plan is successfully implemented.

(PR SOP at 15; *see also id.* at n.12.)

It bears mentioning as well that, given the obvious response to a survey of retail customers as to whether, all other things being equal, they would prefer that their packages arrive in 8 days or 5, and the fact that RG volume is a fraction of PSG

volume,<sup>1</sup> the added cost and effort to conduct an additional survey exclusively of retail customers cannot reasonably be justified.

**D. The Postal Service's Cost Projections are Accurate, Sound, and Thorough**

The PR “finds no issue” with the Postal Service’s estimates of net cost impacts resulting from the planned merger of PSG and RG with FCPS mailflows and notes approvingly that “the methodology employed to calculate the projected cost savings, including the assumptions made therein, is sound.” (PR SOP at 19). As the PR notes, the Postal Service projects that the improved service standards will result in a small net increase of \$3.8 million on the Postal Service’s mail processing and purchased transportation costs. (PR SOP at 19; see *also* USPS-T-3 at 6). The PR also credits the Postal Service’s position that “moving a relatively small amount of volume (from RG and PSG) to the FCPS mailflow would have negligible effects on existing processing of FCPS and other parcel products.” (PR SOP at 19). In addition, the Public Representative “acknowledges that on a net basis, the merging of RG and PSG with FCPS volume has a relatively small impact on total mail processing and transportation costs.” (*Id.*)

Notwithstanding his general approval of the Postal Service’s estimates of net cost impacts, the PR laments that he “cannot conclusively say that the projected cost estimate is accurate”, which he attributes to “the Postal Service’s track record in this and other similar cases involving projected finances,” and to the observation that “[h]istorically, not all of the Postal Service’s projected cost savings estimates have

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<sup>1</sup> See USPS-LR-M2022-1/NP3, ‘RG.PSG.FCPS.Cost.Impact.nonpublic.revised.04.15.2022.xlsx’, ‘Summary-Trans’ Tab, Col. C.

materialized.” (*Id.* at 19.) In other words, the cost projections are deemed suspect not because the data informing them are wrong, not because the methodology they employ is deficient, and not because the calculations they perform are inaccurate, but simply because the Postal Service submitted them. Rather than pinpoint any demonstrable failings within the projections per se, the PR expresses distrust of the entity that commissioned them; the projections themselves are not impugned, and it is reasonable to conclude that, as unrebutted on the evidentiary record, they are sound.

Finally, referring to Witness Bozzo’s testimony, the PR remarks that “the current projected cost estimate does not appear to take into account any volume diversion from PM to RG and PSG.” (*Id.* at 20). Indeed it does not, as volume diversion lies well beyond the scope of Witness Bozzo’s testimony, which focuses on transportation and processing costs. Volume diversion from PM was, however, addressed in response to POIRs Nos. 4 and 5 and was further discussed in the Postal Service’s initial brief. (For additional detail, please see Witness Jarboe’s nonpublic responses to POIR No. 4, Question 6.d.i in USPS-LR-N2022-1/NP12 and POIR No. 5, Question 5 in USPS-LR-N2022-1/NP15; see also USPS Br. at 15-17, 24 n.17). The implication that the Postal Service has neglected to consider the impacts of such diversion is therefore unfounded.

#### **IV. PROPOSED FINDINGS AND CONCLUSIONS**

The Postal Service respectfully proposes that the Commission make the following findings and conclusions in addition to the proposed findings and conclusions in the Initial Brief (see USPS Br. at 25-29):

1. The planned changes do not require a more extensive use of surface transportation than what is utilized in the current state.

2. Any identified issues affecting surface transportation are not likely to be exacerbated by the planned changes.
3. The elimination of interim “touches” is unlikely to degrade service performance.
4. The Postal Service has in fact assessed its capacity to implement the planned changes. Given the small quantity of volume involved, this assessment strongly supports the changes’ feasibility.
5. Attempting to isolate and pilot test the proposed changes would raise serious challenges, impose significant costs, and provide limited insight.
6. The degree and extent of the Postal Service’s underlying investigation and decision-making is consistent with the level of risk and reward inherent in the planned RG-PSG service standard changes.
7. The ground shipping market for packages is increasing and ground shippers are price conscious while also favoring increased delivery speed.
8. On a net basis, the merging of RG and PSG with FCPS volume has a relatively small impact on total mail processing and transportation costs
9. Witness Bozzo’s cost projections are unrebutted on the evidentiary record, and contain reliable data, use valid methodology, and perform accurate calculations.
10. The Postal Service has not neglected to consider the impacts of volume diversion from PM to RG and PSG.

## **V. CONCLUSION**

Pursuant to 39 U.S.C. § 3661 and 39 C.F.R. Part 3020, for the foregoing reasons, those stated in the Postal Service's Initial Brief, and based on the record in this proceeding, the Commission should adopt the Postal Service's proposed findings and conclusions and issue a favorable advisory opinion in support of the planned service standard changes presented by the United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, PRC Docket No. N2022-1 (March 21, 2022).

Respectfully submitted,

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